RUSSIA

TRADE SUMMARY

The U.S. goods trade deficit with Russia was $12.8 billion in 2009, down $4.6 billion from 2008. U.S. goods exports in 2009 were $5.4 billion, down 42.3 percent from the previous year. Corresponding U.S. imports from Russia were $18.2 billion, down 32.0 percent. Russia is currently the 32nd largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Russia was $9.2 billion in 2008 (latest data available), down from $14.4 billion in 2007. U.S. FDI in Russia is primarily concentrated in the mining and manufacturing sectors.

WTO Accession

Through the first half of 2009, Russia's efforts to negotiate the terms for its accession to the World Trade Organization (WTO), begun in 1993, made significant progress. With the exception of Georgia, Russia had completed bilateral market access negotiations with interested WTO Members, including the United States. On the multilateral front, Russia continued discussions with WTO Members that focused on, *inter alia,* adoption and application of sanitary and phytosanitary measures, agriculture (including domestic support levels), intellectual property rights protection, rules for requiring import licenses for products with encryption technology, the levels of certain export duties, and whether Russia's state-owned enterprises would operate on a commercial basis. In addition, Russia had much work to do to implement WTO provisions into its domestic law and to comply with bilateral agreements already in force.

On June 9, 2009, however, Prime Minister Putin announced that Russia, Kazakhstan, and Belarus would suspend their individual applications for accession to the WTO in favor of a joint application for membership as a customs union. Subsequently, the government of Russia appeared to reverse its position, offering to continue its individual WTO accession negotiations, but with the intention that all three countries accede on similar terms on issues covered by the customs union. We await additional information from Russia on its trade plans in 2010, including its intentions with regard to resuming work on its WTO accession and resolving bilateral trade concerns. We will continue to work with Russia to ensure that work on trade and investment priorities keep pace with other important aspects of our bilateral relationship.

IMPORT POLICIES

In 2006, Kazakhstan, Russia, and Belarus announced the formation of a trilateral customs union. On November 27, 2009, the Presidents of Russia, Belarus and Kazakhstan signed the agreements creating the Russia-Belarus-Kazakhstan Customs Union (the RBK Customs Union), including a harmonized table of tariffs and tariff-rate quotas, and a harmonized Customs Code. The common external trade tariff (CET) was implemented as of January 1, 2010, with the majority of the tariff rates established at Russia's current applied rates. On July 1, 2010, a common Customs Code will come into effect and internal customs barriers between Russia and Belarus will be eliminated; internal customs barriers between Russia and Kazakhstan will be eliminated as of July 1, 2011. Currently, the RBK Customs Union has competence over import duties, nontariff measures (*e.g.,* tariff-rate quotas, licensing) and unfair trade measures (antidumping, countervailing duties and safeguards). An expansion of its subject matter coverage is planned in the future, *e.g.*, to include sanitary and phytosanitary measures and technical barriers to trade. The majority of Russia's tariffs will remain unchanged from the present applied tariff rates, but the tariff rates will increase on approximately 1,000 tariff lines, mostly in the areas of meat and other food products while only approximately 400 tariff lines will be reduced.

Russia continues to maintain a number of import restrictions, such as customs charges and fees that exceed the cost of the service provided, and valuation procedures that result in higher total tariff charges than are warranted. Compliance with licensing, registration, and certification regimes is burdensome. Discussions continue on eliminating these and other measures, or modifying them so that they are consistent with WTO requirements and other internationally accepted practices.

Although Russia did reduce or eliminate import tariffs on some products in 2007 and 2008, the prevailing trend in 2009 was to increase import tariffs in key areas in response to the global economic crisis. For example, the Russian government increased tariffs on automobiles, trucks, combine harvesters, soy meal, selected dairy products, and some construction equipment, and has indicated that it will continue to review its tariff policy in light of overall economic conditions. While initially announced as temporary measures for a period of nine months, many of these increases have been renewed and many of them were incorporated into the Customs Union CET.

Tariff-Rate Quotas

In accordance with the 2005 United States-Russia Meat Agreement, the Russian government established country specific tariff-rate quota (TRQ) volumes (including for the United States) and reduced in-quota tariff rates for beef, pork, and poultry meat imports from 2006 through 2009. The agreement expired on December 31, 2009 and early in December 2009, Russia announced its new TRQs for 2010 through 2012. The TRQs that went into effect on January 1, 2010 have lower in-quota volumes for pork and poultry, and maintain high over-quota tariff rates that effectively preclude imports. By contrast, the in-quota volume for beef was increased although the high over-quota tariff remained. In addition, TRQs for some products for 2010 and beyond will be determined on the basis of the RBK Customs Union.

Import and Activity Licenses

Import licenses and/or activity licenses to engage in wholesaling and manufacturing activities are necessary for the importation of certain products, including alcoholic beverages, pharmaceuticals, products with encryption technology, explosive substances, narcotics, nuclear substances, hazardous wastes, and some food products (*e.g.*, unprocessed products of animal origin).

All importers of alcohol products must have an activity license to produce or distribute and store such products, placing a burden on importers that should be applied to distributors. In addition, pursuant to the new customs union licensing regime, importers must obtain an import license for each type of alcoholic product (a requirement previously applied only to imports of vodka, tequila, grappa, and pure ethyl alcohol) under a burdensome and time-consuming process. (*Additional burdens imposed on importers of alcohol-containing products are described below in the section on Nontariff Barriers.*)

Currently, Russia requires that any product containing encryption technology be tested and approved by Russia's Federal Security Service before it can be imported into Russia. This process can often take six months or longer to complete. Leading U.S. technology companies contend that the current system impedes imports, delays the creation of an innovative and knowledge-based economy in Russia, and hampers the further development of research and development centers in Russia. In a November 2006 bilateral agreement with the United States, the Russian government agreed to establish a streamlined system for the importation of goods containing encryption technology through the implementation of transparent, nondiscriminatory procedures. The Russian government agreed also to allow the importation of most commercially traded goods containing encryption technology after a one-time notification, or in some cases, with no licensing or notification requirements at all. Although Russia agreed to implement the new regime by February 2007, the old regime remains in place. The United States continues to work actively with the Russian government on addressing its import licensing barriers for goods containing encryption technology and ensuring the full implementation of the terms of the bilateral agreement. (*Additional information on electronic commerce barriers is continued below in the section on Investment Barriers.*)

Customs Issues, Taxes, and Tariffs

In 2008, Russia's average "most favored nation" applied tariff rate was 10.8 percent. More specifically, U.S. agricultural exporters faced an average applied tariff of 14.2 percent, while industrial exports faced an average applied rate of 10.2 percent. Import tariffs on automobiles and agricultural and construction equipment continued to present particular obstacles to U.S. exports to Russia in 2009.

Excise taxes apply to a number of "luxury" goods, such as liquor and cigarettes, as well as passenger cars. Excise tax rates for all alcoholic beverages will increase dramatically from 2010 through 2012 according to the new excise tax rates adopted by the State Duma on November 20, 2009.

In 2009, the government of Russia also increased tariffs on a number of agricultural products, often citing the economic crisis as justification. For example, Russia nearly doubled the over-quota tariffs on poultry and pork to prohibitive rates. Russia also increased tariffs on soybean meal, rice, baby formula, corn and manioc starch, sugar, cheese, concentrated milk and cream, and tropical oils.

Customs authorities in Russia continue to assess duties on the royalty amounts for the domestic use of imported audiovisual materials, such as television master tapes. U.S. industry has complained that this practice represents a form of double taxation, since royalties are also subject to withholding, income, value added, and remittance taxes. U.S. consumer goods companies have also reported that Russian Customs is calculating customs duties based on a value that includes royalty payments made by the companies' Russian subsidiaries to their overseas parent companies for the use of parent company-owned product trademarks. U.S. companies are disputing these assessments.

Throughout 2009, Russian importers of some U.S. food products reported that Russian customs officials were challenging the declared import values, particularly of commodity products for which world prices had recently declined. Instead, Customs officials used reference prices, resulting in higher import values, and hence higher duty payments. Initially, Russian customs officials requested additional documentation in order to substantiate the declared value, but the requested documents were often unrelated to the specific commercial transaction at issue, as required under Russian law. Consequently, U.S. firms have been disadvantaged as Russian importers have often shifted to third-country suppliers who would provide the requested documents supporting the declared value. Some U.S. companies are challenging these assessments. In addition, U.S. Government officials have raised concerns about inconsistent valuation practices with Russian Customs.

U.S. industry also reports that Russia does not publish all regulations, judicial decisions, and administrative rulings of general application to customs matters. In addition, U.S. exporters report that customs enforcement varies by region and port of entry, and that frequent changes in regulations are unpredictable, adding to costs and delays at the border. Russia recognizes that it will need to revise elements of its customs fee structure.

U.S. companies continue to face a wide array of nontariff trade barriers when exporting to Russia. Nontariff barriers are a topic of detailed discussions in Russia's WTO accession negotiations and in bilateral United States–Russia discussions.

Pharmaceuticals

As Russia prepares to develop its own innovative pharmaceutical industry, major market access barriers remain. Russia still does not prevent unfair commercial use of data submitted for the purpose of obtaining marketing approval for pharmaceuticals despite commitments by the government to work with the Duma to enact legislation by June 2007 to provide six years of protection. Senior Russian government officials have repeatedly stated that they would like to see more local production of pharmaceuticals, including foreign active ingredients and formulations. The government's long-term pharmaceutical industry development plan calls for Russian manufacturers to account for at least 50 percent of total sales (based on value) by 2020.

Alcohol

Importers of alcohol face a variety of regulatory measures. Pursuant to the Russian Customs Code and Law on Production and Turnover of Alcohol, as amended in December 2008, all customs duties, excise taxes, and VAT on alcohol must be paid in advance using a bank guarantee and deposit. Because the actual amount of the duties and fees may not be known when the guarantees are obtained, the government of Russia has established fixed guarantee amounts. On occasion, these amounts exceed the final actual amounts due, especially for lower value products. In addition, industry has reported that refunds of these guarantees are sometimes delayed for as long as seven months. The advance payment requirement for duties and taxes, and the length of time the bank guarantee refund is held open, may limit trade volumes due to the amount of money that must be dedicated to these guarantees.

EXPORT POLICIES

Although Russia has eliminated export duties on a few products, it maintains export duties on nearly 450 types of products for both revenue and policy purposes. For example, a variety of agricultural products are subject to export tariffs, such as certain fish products, oilseeds, fertilizers, and wood products. Russia has indicated that it intends to eliminate gradually most of these duties, except for products deemed as strategic, such as hydrocarbons and scrap metals. In 2009, Russia eliminated its 10 percent export duty on copper cathode, thus implementing one of its commitments under the bilateral WTO market access agreement. Export duties on crude oil, which reach 65 percent in some circumstances, are deliberately designed to redirect crude to domestic refineries.

Over the last two years, Russia's government has been pursuing a policy of raising export tariffs on coniferous logs and round wood in order to stimulate the development of a domestic wood processing industry and to encourage the export of sawn lumber and value added wood products. The government has eliminated the export tax for processed wood products such as particle board, several types of cellulose from coniferous wood, certain types of paper, carton and cardboard, and railway and tramway sleepers.

On October 25, 2009, the government of Russia decided to delay further the introduction of a high export duty on raw timber, leaving the duty unchanged in 2010 at the current level of 25 percent [but no less than 15 euros per cubic meter ($20.5/m^3$)]. Previously, the Russian authorities had planned to introduce a prohibitive 80 percent export tariff (but no less than 50 euros per cubic meter) starting on January 1, 2009, but then delayed to January 1, 2010. On October 25, 2009, the government of Russia decided to delay further the introduction of a high export duty on raw timber, leaving the duty unchanged in 2010 at the current level of 25 percent [but no less than 15 euros per cubic meter ($20.5/m^3$)]. Further export tariff increases would affect domestic producers, since consumption of Russian forestry products decreased worldwide as a result of the economic downturn.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Russia was listed on the priority watch list in the 2009 Special 301 report. Key concerns cited in the Report included Russia's slow implementation of some of its commitments in the November 2006 Agreement between the Government of the United States of America and the Government of the Russian Federation on Protection and Enforcement of Intellectual Property Rights ("IPR Bilateral Agreement"), such as the commitment to fight Internet piracy, protect against unfair commercial use of undisclosed test or other data generated to obtain marketing approval for pharmaceutical products, deter piracy and counterfeiting through criminal penalties, strengthen border enforcement, and bring its laws into compliance with WTO and international IPR norms. The U.S. and Russian governments have an ongoing dialogue to ensure the full implementation of this agreement.

In 2009, Russia's optical disc production capacity continued to exceed domestic demand, raising concerns regarding optical disc piracy. U.S. copyright industries estimate that approximately 65 percent of sound recordings on the Russian market are pirated, resulting in reported losses of nearly $2.7 billion in 2008. However, legitimate DVD sales are on the rise, in part due to increased law enforcement action against pirates, including a 2008 ban on camcording in movie theaters, and a growing preference for high quality products.

Internet piracy is a serious and growing concern. Authorities have begun criminal investigations against operators of some of the notorious Russia-based websites. Western and Russian recording companies have won several civil suits against Internet pirates, although resulting damage awards have been minimal by U.S. standards. Gaps remain in Russian legal and enforcement efforts to address Internet piracy, particularly with respect to sound recordings.

U.S. and multinational companies continue to report counterfeiting of trademarked goods, especially of consumer goods, distilled spirits, agricultural chemicals and biotechnology, and pharmaceuticals. While in the past U.S. firms complained about "trademark squatting" by Russian enterprises attempting to appropriate well-known trademarks not active or registered in Russia, rights holders have been increasingly successful in countering "trademark squatting" schemes though the Russian court system or the Russian Federal Service for Intellectual Property, Patents, and Trademarks (Rospatent). In an effort to advance administrative intellectual property protection, a specialized higher patent chamber at Rospatent has brought greater expertise and efficiency to the adjudication of patent and trademark disputes.

Part IV of the Civil Code, implemented in January 2008, improves many aspects of IPR protection, but still contains some provisions that raise concerns under the WTO and other international agreements. The Russian government pledged to ensure that Part IV and other IPR measures will be fully consistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), and the United States continues to work with the Russian government toward this goal.
Amendments to the Russian Customs Code to provide customs officials with the *ex-officio* authority to seize suspected counterfeit goods and hold them for up to seven days to investigate their authenticity have passed a first reading in the Duma. Second and third readings of these amendments, and the third and final reading of the amendments to Part IV, have not been scheduled.

Under Article 39.3 of the TRIPS Agreement, Russia must, once it becomes a WTO Member, protect against disclosure and unfair commercial use of undisclosed test and other data submitted to government authorities to obtain marketing approval of pharmaceutical and agricultural chemical products. Russia currently does not provide such protection for pharmaceutical products. Although legislative changes to address these concerns are being considered by the Russian government, multiple versions of draft legislation on data exclusivity continue to circulate, making it impossible to assess the adequacy of the possible changes.

Domain Name Changes

Starting November 25, 2009, priority will be given to trademark owners registered in the Russian Federation who also register their domain names in a new Cyrillic alphabet format. The Russian Coordinating Center of the National Internet Domain issued a regulation, "Provisions on Priority Registration of Domain Names in the РФ Domain" that stipulates that domain names must either reproduce or match word designations contained in trademarks. Trademark owners with a ".RU" (Russia) domain name can keep the ".RU," but now have the option of obtaining a ".РФ"(RF). .РФ domain names may be registered for a fee of approximately $40 for a one year period, with the possibility of subsequent renewal of the domain name's registration annually.

Priority registration of domain names in the .РФ domain will be available to rights holders of trademarks in Cyrillic only. Consequently, owners of trademark registrations in the Latin alphabet will be able to register Cyrillic domain names only during a subsequent "auction" period (intended to take place from April 12, 2010 to June 4, 2010) and a "free-for-all" domain name registration period (which would allegedly begin on June 7, 2010). This limitation extends to well-known trademarks in the Latin alphabet.

Enforcement

Poor enforcement of IPR in the Russian Federation is a pervasive problem. In the November 2006 IPR Bilateral Agreement, Russia agreed to improve IPR enforcement while the United States agreed to step up IPR training programs and technical assistance for Russian customs and law enforcement officials. In 2009, the U.S. Patent and Trademark Office conducted six IPR training programs for Russian police, investigators, prosecutors, judges, and customs officials and in total trained 149 Russian law enforcement officials. Russian Customs has drafted an "IPR Enforcement Handbook", which will be used by all Russian Federal Customs Service officers. Additional training programs are planned for 2010.

In 2009, Russian law enforcement agencies carried out raids on optical disc production facilities suspected of engaging in pirate activities, including a major raid in Moscow and surrounding regions in November 2009 that involved close cooperation between the Russian Ministry of Interior (MVD) and rights holders. That raid stopped the activity of two international organized crime groups involved in mass producing counterfeit DVDs of films and software. Although the raid was a successful surprise raid, most surprise raids are less effective as the date and time of pending raids are often leaked to the optical disc plant in advance. While the level of cooperation with police in optical disc raids is increasing, the quality of raids, and the level of police expertise, is uneven nationwide. A number of factors limit the effectiveness of raids, including the high monetary damages threshold required to establish criminal liability, and the general reluctance of prosecutors to initiate criminal cases in the field of IPR, even when evidence substantiates the claim.

SERVICES BARRIERS

Russia's services market is relatively open to U.S. services suppliers, including in areas such as financial services, education, legal services, and distribution, although specific problems remain in particular areas. The ability to provide services to public utilities and certain energy-related services (*see discussion on energy in the section on Investment Barriers*) remains limited. The process for an individual or a company to obtain a license to provide a service remains difficult, and limitations on the form of commercial establishment affect some sectors.

Financial Services and Insurance

The 1996 federal law "On Banks and Banking Activity" permits foreign banks to establish subsidiaries in Russia. However, Russia does not allow foreign banks to establish branches in Russia. While there is no cap on foreign charter capital in the banking sector, in the insurance sector, foreign insurance firms are subject to a 49 percent equity limitation.

Telecommunications

The telecommunications services market reached $37.2 billion in 2008 and is expected to grow to $48.5 billion by 2013. Many in the industry continue to criticize the lack of transparency in the licensing process, as well as the 5 year to 10 year license validity period, which they argue does not allow them sufficient time to recoup their investment. The scarcity of civilian frequencies has led to competition among Russian mobile operators and impeded the development of new wireless networks in Russia, such as 3G and WiMAX. (Only about 5 percent of Russia's communication frequencies are used for civilian purposes, while 95 percent are reserved for military use.) Despite lobbying efforts from mobile operators, there is no indication that the Ministry of Communications and Mass Media will free up more frequencies for civilian use.

Industry reports that certification of new products in the telecommunications industry still suffers from a lack of transparency. Additionally, the satellite industry reports that the licensing process for obtaining access to a foreign satellite is overly burdensome and lacks transparency. Further, they claim that some of the legal requirements and administrative responsibilities associated with the provision of satellite services appear to be discriminatory, with the Russian government granting a preference for Russian satellite communications systems.

INVESTMENT BARRIERS

Russia’s foreign investment regulations and notification requirements can be confusing and contradictory, which has an adverse effect on foreign investment. In addition, U.S. investors and others cite corruption in commercial and bureaucratic transactions as a barrier to investment. President Medvedev’s vow to tackle corruption in Russia included the creation of an Anti-corruption Council in the summer of 2008 and an anti-corruption legislation package, which was promulgated in December 2008. However, little progress has been seen on implementation.

Telecommunications and media services companies report specific investment restrictions. Russian entities with more than 50 percent foreign ownership are prohibited from sponsoring television and video programs or from establishing television organizations capable of being received in more than 50 percent of Russia’s territory or by more than 50 percent of the population. Even tighter investment restrictions have recently been imposed on security firms. As of January 1, 2010, the Law on Private Detective and Security Activities in the Russian Federation prohibits the participation of any foreign capital in a private security operation.

Further obstacles to investment in Russia include inadequate dispute resolution mechanisms, weak protection of minority stockholder rights, the absence of requirements for all companies and banks to adhere to international accounting standards, and the failure of some companies to adopt and adhere to business codes of conduct. Initiatives to address these shortcomings, either through regulation, administrative reform, or government sponsored voluntary codes of conduct, have made little progress. Inadequate transparency in the implementation of customs, taxation, licensing, and other administrative regulations also discourages investment.

National Treatment

The 1999 Investment Law codifies principles of national treatment for foreign investors, including the right to purchase securities, transfer property rights, pursue rights in Russian courts, repatriate funds abroad after payment of duties and taxes, and receive compensation for nationalizations or illegal acts of Russian government bodies. However, the law goes on to state that federal law may provide for a number of exceptions, including, where necessary, “the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state.” Thus, a large number of broadly defined exceptions give the Russian government considerable discretion in prohibiting or inhibiting foreign investment. The law includes a “grandfather clause” that stipulates that existing (as of 1999) “priority” foreign investment projects with foreign participation of over 25 percent be protected from unforeseeable changes in the tax regime or new limitations on foreign investment. The law defines “priority” projects as those with a foreign charter capital of more than $4.1 million and with a total investment of more than $41 million. However, the lack of corresponding tax and customs regulations means that any protection afforded investors by this clause is only theoretical.

The government enacted the Strategic Sectors Law (SSL) in May 2008. The SSL introduces a list of 42 “strategic” sectors in which purchases of “controlling interests” by foreign investors must be pre-approved by the Russian government. Many observers, while welcoming more clarity on the rules of the game, have criticized the SSL for being overly broad in the number of sectors it covers, and raised concerns regarding the approval process.

To date, the Government Commission on Control of Foreign Investment in the Russian Federation has received over 80 applications, held four sessions, reviewed dozens and approved around twenty deals. However, the majority of the approved transactions actually involved Russian investors as many of them are structured using foreign offshore holding companies. Public information was available on just four foreign companies that received approval under the SSL: South African DeBeers (diamond mining, but the deal fell through because of the financial crisis); Italian Alenia Aeronautica (development of Sukhoi Superjet 100); Canadian Barrick Gold (gold mining); and Khartron, which is controlled by the Ukrainian government (space cooperation).

Taxes

From 2002 through 2008, the corporate profit tax was 24 percent, 11 percentage points higher than Russia’s flat 13 percent tax on personal income. However, in late 2008, as an economic stimulus measure, Russia reduced the corporate profits tax rate from 24 percent down to 20 percent, effective January 1, 2009.

Companies report that VAT refunds to a Russia-based exporter, which should be provided within three months after a claim is submitted, often do not occur on time, with customs and tax authorities applying a number of burdensome additional requirements. In addition, leasing companies find that VAT assessed on inputs to exported final products is often not refunded at all, for a number of reasons. In some cases, local tax inspectorates have initiated audits and attempted to seize bank accounts of the leasing companies, thus forcing exporters to seek very expensive and time consuming court enforcement. VAT refunds on exports are also the source of significant fraud, making it even more difficult for legitimate exporters to obtain refunds. Legislation to simplify VAT reimbursements took effect on January 1, 2007. Under the new law, VAT refund processing time was expected to fall from three months to two weeks, but anecdotal reports from Russian and U.S. companies indicate that the new law has not helped reduce refund processing time, and that in many cases, companies have to resort to court action to receive their VAT reimbursements. In addition, during the course of their audits, Federal Tax Service officials now have the authority to confiscate improperly disbursed VAT refunds, with penalties.

U.S. companies have also raised concerns about the Russian tax authorities' scrutiny of payments that cross Russia's border, but remain within the structure of the same legal entity. This tax issue has arisen chiefly in two contexts: (1) when a multinational company transfers an employee temporarily to the company's Russian office from another office outside Russia; and (2) in intra-company payments for the use of intellectual property. Under internationally accepted accounting standards, these normal business practices are handled as an intra-firm payment from one office to the other, or to the headquarters in the case of royalty payments. However, tax inspectors have often disputed such expenses as "economically unjustified" and, consequently, not permissible under the Russian Tax Code. While foreign firms with Russian operations have been careful to ensure that their accounting methods are consistent with the Russian Tax Code, several foreign firms have been subjected to audits and claims for back taxes in these situations.

Energy Sector

In conjunction with the SSL, amendments to subsoil legislation were also passed requiring governmental approval for foreign investment in excess of 10 percent in companies operating a "strategic" deposit, which includes major oil, gas, and other mineral deposits. Foreign oil and gas companies are concerned about the potential application of these provisions, including how and when the government may declare a given field strategic and what compensation a field licensee may be given under such declarations.

In late 2008, the partners of the Caspian Pipeline Consortium (CPC) approved expansion of the CPC pipeline, which has been operational since 2001. The CPC pipeline originates in Kazakhstan and delivers oil to the Black Sea port of Novorossiysk. CPC expansion is critical for export of rapidly growing Central Asian oil production. As of late 2009, physical work on expansion had not yet begun.

ELECTRONIC COMMERCE

Electronic commerce remains a developing market in Russia, valued at $1.5 billion in 2008. Russia's law currently does not provide identical legal status to both electronic and paper documents. Because of this discrepancy, electronic settlement of outstanding charges is problematic, and currency control provisions may apply when paying in a currency other than rubles. The tax aspects of electronic commerce are virtually unexplored, and this area of the law is still developing.

Russia's Law on Electronic Digital Signatures went into effect on January 14, 2002. This law does not follow the Model Law on Electronic Signatures of the U.N. Commission on International Trade Law, but rather defines electronic signatures narrowly, making public-key technology the sole acceptable digital signature technology. It also requires that hardware and software used in digital signature authentication programs be certified in Russia. This requirement gives the Russian government the right to insist on the decompilation of electronic signature programs. The requirements contained in Russia's digital signature law, as well as the licensing requirements related to goods with encryption technology, impede trade in goods that could be used to further electronic commerce in Russia.